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DE RUEHCHI #0051/01 0880927
ZNR UUUUU ZZH
P 280927Z MAR 08
FM AMCONSUL CHIANG MAI
TO RUEHC/SECSTATE WASHDC PRIORITY 0717
INFO RUEHHS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHOO/CHINA POSTS COLLECTIVE
RUCPDOG/USDOC WASHINGTON DC PRIORITY 0001
RUEHKO/AMEMBASSY TOKYO PRIORITY 0039
RUEHCHI/AMCONSUL CHIANG MAI 0773

UNCLAS SECTION 01 OF 02 CHIANG MAI 000051

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E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [ELTN](#) [ETRD](#) [ETTC](#) [SOCI](#) [TH](#)
SUBJECT: SKILLED LABOR SHORTAGE, HIGH TRANSPORT COSTS HINDER
OPPORTUNITIES FOR DEVELOPMENT IN NORTH

REF: 08 CHIANG MAI 51 "REGIONAL BUSINESS CONFERENCE ON LOGISTICS BRINGS TOGETHER U.S. AND MEKONG REGION BUSINESSES"

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Summary

1. In meetings with the Ambassador March 18, business leaders highlighted a shortage of highly skilled labor and unusually high transportation costs as key obstacles to expanding development and American investment in northern Thailand. Local Thai business leaders echoed the calls of American firms for investment in more specialized skill sets for Thais, and lowering of non-tariff barriers to trade. American companies Monsanto and GE also noted challenges to expanding their investments in biotechnology and medical equipment refurbishment in Thailand. End Summary.

2. In sidebar meetings during a recent Consulate-hosted conference on logistics development in the Greater Mekong Subregion (GMS) (reftel), Ambassador met with representatives of the Chambers of Commerce of Chiang Mai and Chiang Rai, the Federation of Thai Industries, and the GMS Business Forum. He also met with executives from American firms Monsanto, Innovex, GE Corporate Thailand, UPS, and PepsiCo. Attendees discussed challenges to economic development and foreign investment in Thailand, specifically in the northern provinces.

Lots of Labor, Shortage of Skills

3. A shortage of highly skilled labor is a challenge for development and expanding American investment in northern Thailand, attendees told the Ambassador. Innovex President and CEO Terry Dauenhauer said that his company, which produces electronics components in northern Thailand's Lamphun province, has difficulty finding qualified, high-skilled labor at the undergraduate and graduate levels among the Thai population. He said that in order to remain competitive in the Mekong region, Thailand needs to improve its educational system to produce more workers with high-tech skill sets. PepsiCo International Director in Thailand Songyos Ruengsakulrach echoed Innovex's concerns, noting that most of his company's middle and upper level managers in Thailand are from India, China, and Hong Kong, though PepsiCo would prefer to hire local Thais if they possessed these management skills. Innovex's Dauenhauer called for Thailand to establish more incentives for businesses to invest in human resource development by building research laboratories or supporting university curricula that proved courses in applied technology studies.

4. Thai business leaders emphasized similar concerns in a separate meeting. Chiang Rai Chamber of Commerce President Patana Sitthisombat said that the key to development not only in northern Thailand but also in the wider GMS is human resource development. He reported that Chambers of Commerce in the north are working with universities and vocational schools to improve and expand training opportunities. He said that "northern Thailand is trying to duplicate Singapore." GMS Business Forum former Chairman Jingjai Hanchanlath noted that Malaysia has expressed interest in establishing a GMS regional university based in Chiang Rai. Patana and Jingjai agreed that the key to economic development in the Mekong region is networking, trade facilitation, and capacity-building, all of which require higher level skill sets.

The Not-So-Hidden Barriers to Trade

5. Aside from limited access to skilled labor, American firms also raised concerns about the high costs of transportation in Thailand. Innovex, which exports 90% of its products (electrical components for hard drives and mobile phones) to China, said that transportation and infrastructure costs in

Thailand are "dangerously high." PepsiCo stated that if it could import more raw materials into Thailand, it would then expand its investment here. In addition to lower freight and duty costs, PepsiCo supports resuming negotiations toward a Thai-U.S. Free Trade Agreement to open the opportunity for importing potatoes - the main input for its Lays potato chip plant in Lamphun province - from the United States.

16. The Chiang Rai Chamber of Commerce's Patana pointed to the wider region's high transport costs as an obstacle to further development. He noted that freight costs from Vientiane to Bangkok are the same as from Bangkok to Los Angeles, and argued that Thailand should modernize its logistics and supply chain management to lower costs. Chiang Mai Chamber of Commerce Vice President Udomrat Ukrachinores called for building a container

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yard in Chiang Khong, which is located on the Mekong River border with Laos, because currently shipping companies have to bring empty containers up from Bangkok, yet another cost in the Mekong region's trade system. Udomrat noted that Chinese investors are looking into the feasibility of the container yard, whereas no major Western companies have expressed interest.

Limited Access to Biotechnology, Medical Equipment

17. Monsanto representative Shanti Shamdasani highlighted the RTG's sluggish progress in expanding biotechnology use in Thailand. She said that although Thailand had been a pioneer in biotechnology, countries such as Vietnam and Philippines have surpassed Thailand in this field. Shanti speculated that the RTG is concerned about a backlash from NGOs and the media if progress were to continue more rapidly. She argued that expanding biotechnology usage is one way to reduce the high rate of labor flowing from rural areas to urban centers and industrial hubs because it adds value to the agricultural sector. (See 2007 Chiang Mai 155 for a fuller discussion of Monsanto's views on biotechnology in Thailand).

18. GE Thailand Country Director Pornlert Lattanan expressed concern about the Ministry of Health's prohibition on purchasing refurbished medical equipment. GE sees a market for such equipment in Thailand because the prices are more accessible to hospitals throughout the country. The Ministry's requirement of purchasing new equipment raises costs 50-60%, making it affordable only to the best hospitals in Bangkok. Pornlert noted that some European and Japanese suppliers evade the prohibition by not labeling their used equipment as refurbished. GE, which does not engage in this practice, then loses sales to these competitors.

Comment

19. Although the U.S. is Thailand's second-largest investor (after Japan), the RTG can and should do more to create more favorable economic conditions for potential future investors and to ensure that current investors stay and expand rather than relocate. Such steps would also attract greater U.S. business involvement in the north, which to date is thin outside of the seasonably-vulnerable agriculture and tourism sectors. With rising competition from countries such as Vietnam, Thailand will need to work hard to make sure its labor force has skills that are in demand and that the costs of managing trade are sufficiently low to remain competitive.
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